

## **CHAPTER 2. CONSOLIDATED STATEMENTS**

### **2-1 Background**

- A. The Government Management Reform Act of 1994 (GMRA) requires that federal agencies prepare audited consolidated financial statements for all activities. A consolidated financial statement presents the results of operations and the financial position of an entity and its component units as if the group were a single enterprise. The rationale behind preparing a consolidated statement for the Department is that it disregards the distinction between separate offices, thus preventing the overstatement of transactions and balances by virtue of the Department doing business within itself. Transactions that occur between or within program offices (intra-HUD transactions; e.g. transactions between FHA and Ginnie Mae, or between an office's Working Capital Fund and the appropriated fund) must be eliminated in the Department's financial statements to properly report the financial position and results of operations of the Department. The proper recording and reconciliation of intra-HUD transactions ensures that offices record the proper classification and amount for these transactions, and that the elimination entries for the Department's financial statements are complete and accurate.
- B. Other adjustments, e.g., cost allocations and balance sheet payables and receivables, are also included in the preparation of the consolidated financial statements, though they are not transactional in nature.
- C. One of the uses of the consolidated financial statements is by the Department of the Treasury in publishing the *Financial Report of the United States*. Treasury determines the reporting standards for agencies' submissions of audited financial statements.

### **2-2 Identifying USSGL Accounts for Intragovernmental and Intra-HUD Transactions**

- A. The OACFO for Accounting, Financial Reporting Division (FRD), is responsible for preparing the consolidated financial statements, using data received from the component entities.
  - 1. FRD provides templates and instructions to all component entities for reporting financial data from those entities. This includes the OACFO for Systems, the FHA Controller, and the Ginnie Mae CFO.
  - 2. Each component entity is required to identify intra-HUD transaction involving other HUD components (intra-agency transactions). Intra-HUD transactions are to be included in the Trial Balances submitted with the component entity's templates, even though they will be eliminated during preparation of the HUD consolidated statements.

3. In accordance with the Treasury Financial Manual (TFM) regarding intragovernmental transactions, each component entity is also required to identify transactions that accrue to other Federal entities (intra-agency transactions) and that will be eliminated during preparation of the *Financial Report of the United States*.
- B.** In accordance with the TFM, any material differences (over \$100 million) between trading partners concerning the amounts of intra-agency transactions, after due diligence in attempting to reconcile, will be resolved through a dispute resolution process involving Treasury's Bureau of the Fiscal Service (formerly FMS).
- C.** HUD eliminations involving FHA and/or Ginnie Mae:
1. One elimination arises when FHA approves a claim filed by Ginnie Mae, but the claim has not been disbursed.
    - a. The claims filed by Ginnie Mae occur when the loss mitigation process has been completed and the loans are deemed non-curable.
    - b. Once FHA approves the claims, FHA establishes an intragovernmental payable (to Ginnie Mae), and Ginnie Mae establishes an intragovernmental receivable (from FHA).
    - c. The amount of outstanding claims is provided to the FRD by both components on a quarterly basis.
    - d. The respective balances are eliminated in HUD's consolidated statements.
  2. Another elimination pertains to the Working Capital Fund (WCF) and amounts to be applied to WCF expenses from various appropriations accounts. The elimination posted in HUD's financial statements is based on the liquidation of advances posted in the WCF.
- D.** The FRD must retain records of all worksheets for the consolidation process, including applicable trial balances and crosswalks from component entity submissions, to support the validity of eliminations and to ensure compliance with federal accounting standards.

## **2-3 Identification of Non-Eliminating Adjustments**

- A.** Adjustment relating to the valuation of Departmental assets and liabilities.
1. The assets associated with Ginnie Mae's FHA insured portfolio are valued at 100 percent of Unpaid Principal Balance (UPB), which is the value to Ginnie Mae.
  2. At the consolidated Department level, the value of Ginnie Mae's assets is the estimated net recoverable amount for the Department. The allowance for these

assets is included in FHA's liability for loan guaranty (LLG) (claim disbursement plus recovery at asset disposition).

3. The corresponding balances are reclassified based on a Journal Voucher recorded in the Department's reporting module, Hyperion Financial Management (HFM).
  4. The amount of FHA's LLG attributable to Ginnie Mae will also be reduced by the calculated allowance amount.
  5. The formula for the calculation of these amounts will be based on cohort data supplied by Ginnie Mae and corresponding claim rates and loss rates supplied by FHA.
  6. All worksheets supporting this reclassification are to be retained by FRD.
- B.** Adjustment for the cost allocation. Annually, a cost allocation is performed to determine FHA's costs attributable to salaries and expenses. FHA does not receive an appropriation for salaries and expenses; instead the FHA amounts are appropriated directly to HUD. In order to recognize these costs in FHA's Statement of Net Cost, a transfer from HUD is recorded based on amounts computed by HUD.
1. An interim Journal Voucher is posted in HFM to allocate Salaries and Expenses (S&E) costs based on estimates prepared by FHA on a quarterly basis.
  2. The basis for the estimated amounts to be transferred is to be retained as a supporting document by FRD.
  3. The actual cost allocation study is performed at year end based on FTE data and actual expenses reported in the Department's administrative funds. The cost allocation study factors the amount of S&E costs and other indirect costs that should be reflected in FHA's stand-alone financial statements.

## **2-4 Accounting Procedures**

### **A. For Intragovernmental Transactions**

1. Intragovernmental transactions are regulated through the TFM, Part 2, Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, and revisions contained in Bulletin 2013-04 and Bulletin 2014-03.
2. As needed, a separate HUD instruction from the FRD will be provided to HUD component entities to specify application of the TFM guidance.
3. In a mid-fiscal-year communication, FRD will request that each component entity identify activities that are likely to involve intragovernmental transactions during the fiscal year. FRD will use the responses to prepare the

schedules needed for eliminating intra-office and intra-HUD transactions from the consolidated financial statements.

**B. For Journal Vouchers**

1. For the Consolidated Balance Sheet reclassification pertaining to Ginnie Mae Loans Receivable and FHA Liability for Loan Guarantees, the Journal Voucher will be documented by worksheets provided by FHA showing all calculations from the balances in the Ginnie Mae cohorts as affected by FHA claims and loss rates, obtained from FHA records pertaining to those cohorts.
2. For HUD's cost allocation to FHA, FHA will provide worksheets showing the allocation methodology and percentages derived for each of the allocation amounts. The data will be maintained by the FRD as an integral component of the OCFO's cost allocation study performed at year-end.
3. The amount of outstanding Ginnie Mae claims with FHA is determined for year-end reporting purposes based on updated data from the FHA and the amount previously reversed in HFM to derive the amount of actual claims outstanding at year-end.

**2-5 Changes in Financial Reporting**

- A.** All component entities are required to notify the FRD, of any significant changes in the preparation of its financial statements, including the implementation of new federal accounting standards relevant for the fiscal year.
- B.** If required, the component entity must submit the new posting models at the transaction level and its impact on the component's chart of accounts to the FRD. If needed, the component entity will provide the appropriate trial balances and appropriate cross-walks to the component's financial statements used by the FRD in the consolidation process.
- C.** FRD will evaluate each submission to assure that Federal accounting standards are met and if necessary, will notify the component entity's management of the apparent deficiency. The FRD will work with the component entity and implement necessary corrections to ensure HUD's compliance with federal accounting standards.
- D.** In order to facilitate the dialogue between OCFO and HUD component entities, FRD will initiate and hold quarterly meetings with financial officers of component entities. The financial reporting processes identified in this handbook will be reviewed, including any known or planned changes. Reporting timelines will be verified and any modifications to methodologies will be reviewed.